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Politicians Play The Numbers Game

Japanese politicians have begun to take their positions in advance of the July 6 lower and upper house elections, carefully balancing party and personal interests to assure maximum bargaining strength in the factional jockeying expected to follow the balloting for president of the Liberal Democratic Party and prime minister.

Prime Minister Yasuhiro Nakasone has issued his targets for the campaign: slightly more than simple majorities in both houses. For the lower house -- the more important of the two -- this translates into 257 seats, seven more than the party presently holds. (The Liberal Democrats have been able to hold on to power in the 511-seat lower house through a coalition with the New Liberal Club, which has eight members in the chamber.) Mr. Nakasone's strategy

While generally approving, the Ministry of Finance expressed concern over the report's statement that the government "may possibly take temporary, emergency measures" to cope with abrupt changes in the economic situation. The MOF is worried that this may encourage support for a massive supplementary budget in the fall to stimulate the domestic economy. At a June 9 strategy session for next month's election, leaders of the ruling Liberal Democratic Party proposed a Y3 trillion ($17.6 billion at Y170=$1.00) supplementary budget.

The study summarized the administrative and fiscal reform measures taken over the past five years. The council was established in 1983 to follow up the work of its predecessor, the Ad Hoc Council on Administrative Reform, organized in 1981, and will be disbanded at the end of the month. Both committees were chaired by Toshiwo Doko, former chairman of Keidanren. The report proposed the creation of a watchdog commission aimed at ensuring further progress in administrative reform, an idea publicly favored by the prime minister.

Mr. Nakasone told the council that the basic themes of the report -- the need for smaller government and better utilization of private resources -- constitute the foundation of government policy. In addition to fiscal reconstruction, major initiatives pushed by the council during the past five years include the privatization of Nippon Telegraph and Telephone Corp., Japan Tobacco and Salt Corp. and Japanese National Railways.

To ensure economic vitality the council called on the government to refrain from raising taxes. Tax payments and social security costs absorb 35 percent of income in Japan, the report noted, compared to around 50 percent in Europe. Next year's tax reform, the council believes, should focus on improving the fairness of the tax system rather than raising taxes. Other ideas contained in the report include adjusting the allocation of costs and responsibilities between national and local governments, centralization of autonomous city and rural governments, and an easing of government controls on semi-public corporations.

Randall S. Jones

"Yen's Rise Brings No Fall In Import Prices," Complains Nakasone

Domestic and international political considerations have goaded Prime Minister Yasuhiro Nakasone to direct the cabinet to find ways of translating the stronger yen into lower retail prices for imported goods. Although the utility companies have agreed to pass on to the consumer a significant share of the windfall profits resulting from a stronger yen and lower oil prices, the impact of appreciation on department- and grocery-store items has been minimal.

From Japan's point of view, the yen has increased in value by almost 50 percent against the dollar in 12 months. This would seem to imply a price cut on imports of up to one-half. According to a Ministry of International Trade and Industry survey of 20 imported items, half showed no or smaller declines at the retail level than at dockside, and the other half showed equal or greater cuts (see Table). Ministry officials blamed Japan's intricate web of distributors and middlemen for the disparate price results.

Changes in Import and Retail Prices

(in yen and percentage change)

Item	Import Price Change	Retail Price August 1985	Retail Price March 1986	Change Yen	Change Percent
Socks, Class A	Y-35	Y300	Y289	Y-11	-3.7%
Class B	0	250	200	-50	-20.0
Underwear	-23	650	650	0	0.0
Shirts and blouses, Class A	-170	2,040	1,480	-560	-27.5
Class B	-190	2,915	2,915	0	0.0
Jeans	-320	6,700	6,700	0	0.0
Neckties, Class A	-80	13,500	13,500	0	0.0
Class B	-750	15,000	15,000	0	0.0
Class C	90	15,000	15,000	0	0.0
Handbags, Class A	-250	2,480	2,480	0	0.0
Class B	-590	43,000	43,000	0	0.0
Athletic shoes, Class A	-340	5,800	5,300	-500	-8.6
Class B	-150	2,500	2,000	-500	-20.0
Class C	-150	1,980	1,980	0	0.0
Class D	-500	12,500	12,500	0	0.0
Umbrellas	-60	798	638	-160	-20.0
Wrist watches, Class A	-420	3,980	2,980	-1,000	-25.1
Class B	0	68,000	68,000	0	0.0
Class C	-1,720	224,000	224,000	0	0.0
Electric razors	(-3.2%)	12,850	12,850	0	0.0
Golf clubs, Class A	-1,850	112,000	98,000	-14,000	-12.5
Class B	-3,220	150,000	98,000	-52,000	-34.7
Class C	-8,670	160,000	128,000	-32,000	-20.0
Tennis rackets	-1,710	23,450	20,880	-2,570	-11.0
Athletic balls, Class A	-14	660	660	0	0.0
Class B	-230	6,000	2,900	-100	-3.3
Class C	-230	6,480	6,480	0	0.0
Passenger cars, Class A	-337,000	5,600,000	5,150,000	450,000	-8.0
Class B	-30,000	3,950,000	3,950,000	0	0.0
Tires	0	11,000	11,000	0	0.0
Ballpoint pens, Class A	-120	2,000	2,000	0	0.0
Class B	0	10,000	10,000	0	0.0
Class C	-435	60,000	60,000	0	0.0
Photographic film	0	560	560	0	0.0
Home aluminum goods, Class A	-180	2,280	1,980	-300	-13.2
Class B	-340	1,980	1,380	-600	-30.3
Records	-200	2,210	2,032	-175	-7.9

Source: Ministry of International Trade and Industry

At a June 16 cabinet meeting, Mr. Nakasone targeted imported clothing, alcoholic beverages and food products as good prospects for price cuts. He urged his ministers to insure that at least all government-influenced companies pass on exchange rate profits. Japan Air Lines Co., Ltd., for example, should let its prices for imported whiskey served to passengers reflect the stronger yen, he said. His reasons for this unusual stand are clear: Japan's trading partners are growing increasingly anxious as the trade surplus continues to expand. In addition, the double Diet elections are rapidly approaching. Lower retail prices on imports should improve the Liberal Democratic Party's image with the voters and help deflect foreign criticism about Japan's sluggish imports.

It is unlikely that the prime minister's exhortations will have a significant or rapid effect. Just as U.S. distributors of Japanese products pocketed part of the gain when the yen was weak, Japanese importers can hardly be expected to deny themselves the benefit of a weak dollar. Even if each distributor took just a small share of the windfall profits, the impact at the retail level might still be small since there are many more marketing layers in Japan than in the United States. Since it is unlikely that the government will take action to drastically alter the inefficient distribution system, Japanese consumers will probably receive only a few drops of the "trickle down" effect of lower import prices.

Jon Choy

Japan-EC Talks Focus On Damage Control

Japanese and European Community officials met June 10-12 in Geneva to discuss current bilateral issues, with trade developments topping the list. Once again, both sides reiterated their commitment to enhancing scientific cooperation and promoting Japanese direct investment on the continent. With these appetizers out of the way, negotiators sat down to the main course of trade relations.

Europe and Japan continue to find common ground in discussions of the peaceful uses of nuclear energy. Previous agreements have encompassed the development of new reactors and fuel reprocessing techniques. In the aftermath of the Soviet nuclear accident at Chernobyl, officials agreed to increase safety information exchanges and cooperate on efforts to improve international nuclear safety standards.

Japan also sought to strengthen the environment for direct investment in European production facilities. Although an increasing number of Japanese firms were already interested in overseas production, the yen's rapid appreciation against European currencies has made that option even more attractive. Moreover, the Community has been more aggressive in imposing dumping penalties on a wider range of Japanese exports, adding to the momentum for direct investment.

While both sides agree that the stronger yen should cut into the bilateral trade imbalance, Japan's surplus with the EC continued to expand during the first three months of the year, rising from just under $1 billion in January to a record $1.6 billion in March. While the gap fell slightly to $1.4

Table 1: Japan's Trade with the European Community, January-April 1986

(in millions of dollars and percentage change over 1985)

a. Exports (f.o.b.)

	January		February		March		April	
EC	$1,883.2	37.2%	$2,289.9	52.9%	$2,616.6	52.6%	$2,564.6	74.8%
Great Britain	456.1	28.2	493.3	49.6	554.7	37.3	545.5	65.7
Netherlands	198.6	87.6	225.3	55.6	262.2	61.8	266.7	70.0
Belgium	131.7	69.8	175.8	69.2	199.3	71.4	205.6	98.4
France	198.2	53.5	241.4	59.2	295.4	75.0	261.5	52.2
West Germany	611.5	44.7	796.2	54.0	881.9	55.4	892.4	77.0
Italy	98.2	48.5	135.1	49.0	154.1	59.2	134.9	48.3
Spain	45.9	51.0	76.0	73.1	99.2	100.4	87.3	83.7
Greece	53.0	55.7	27.1	-42.2	26.1	-80.7	42.1	-2.2

b. Imports (c.i.f.)

EC	$884.3	30.7%	$831.8	25.6%	$1,008.5	40.9%	$1,159.7	63.9%
Great Britain	152.6	6.4	176.8	29.8	192.8	35.5	327.4	116.9
Netherlands	40.3	7.4	35.8	11.1	52.4	43.6	42.8	27.6
Belgium	33.4	7.2	43.4	-14.6	51.6	18.5	65.5	63.0
France	113.0	42.6	121.3	-1.2	139.4	26.3	144.3	44.1
West Germany	330.3	46.4	252.1	35.3	326.7	53.7	372.2	53.1
Italy	93.7	35.1	101.3	24.2	113.7	34.4	91.4	11.9
Spain	35.0	20.7	19.6	16.2	41.0	80.0	17.1	-76.6
Greece	2.8	-20.8	16.3	1,545.4	5.5	-88.1	2.2	43.7

Source: Japan Tariff Association

Table 2: Japanese Exports to the EC by Product, April 1986

(in millions of dollars and percentage change over 1985)

	EC	Great Britain	Netherlands	France	West Germany	Italy	Greece
Total	$2,564.6	$545.5	$266.7	$261.5	$892.4	$134.9	$42.1
	74.8%	65.6%	70.3%	52.0%	77.0%	48.3%	-2.2%
Food	10.3	2.3	1.1	3.9	1.3	0.3	0.1
	103.1%	17.2%	6.6%	426.6%	213.0%	12.0%	576.0%
Textiles and Clothing	60.8	19.1	3.5	10.0	17.8	4.4	0.3
	92.7%	53.7%	114.6%	131.7%	114.2%	76.5%	43.4%
Chemicals	112.4	14.2	15.1	16.0	31.7	14.6	0.5
	40.2%	39.2%	7.6%	44.1%	26.0%	52.8%	104.5%
Nonmetallic Mineral Manufactures	18.0	4.2	1.5	2.3	5.0	2.1	0.2
	71.7%	56.0%	116.7%	46.3%	73.9%	143.4%	-19.6%
Metals and Metal Products	57.5	10.4	6.5	5.3	19.6	4.5	1.0
	17.3%	-13.4%	-16.8%	-50.7%	66.5%	79.8%	-41.3%
Machinery and Transport Equipment	2,065.1	446.3	212.0	194.0	732.9	95.5	34.0
	79.4%	69.2%	84.3%	54.3%	80.1%	45.7%	-13.2%
Office Equipment	240.3	52.1	19.5	19.6	103.7	17.3	0.3
	79.9%	96.7%	51.0%	43.0%	72.3%	68.0%	-3.7%
Metalworking Machinery	45.1	5.7	1.5	4.1	19.0	0.9	0.0
	117.6%	33.0%	8.5%	56.7%	160.3%	69.0%	-86.1%
Radios	56.1	16.2	2.7	3.9	19.7	0.2	0.5
	71.5%	85.9%	33.5%	156.3%	44.3%	115.2%	-8.7%
Semiconductors and Electronic Tubes	103.5	20.8	2.7	6.6	56.0	6.5	0.1
	47.8%	21.8%	5.3%	27.8%	60.4%	74.5%	330.8%
Motor Vehicles	469.7	115.0	57.6	26.7	162.4	1.0	8.5
	159.1%	165.3%	172.5%	58.6%	215.8%	-56.0%	12.6%
Precision Equipment	224.8	35.4	35.2	19.4	100.9	9.9	0.5
	58.2%	32.2%	68.3%	4.9%	72.3%	28.1%	137.6%
Other	240.6	49.0	26.5	30.0	84.1	13.6	6.0
	72.1%	85.8%	64.5%	20.0%	73.2%	38.7%	292.9%

Source: Japan Tariff Association

billion in April, May's $1.5 billion mark is cause for concern in Tokyo. The trade boom is even more apparent when recent statistics are compared with year-earlier levels (see Table 1). Economic activity in Europe is clearly on the upswing, increasing the demand for imports. Of particular concern to both sides, however, is the rapid rise in Japanese shipments of particular items, including automobiles, electronic parts and precision equipment (see Table 2).

Japanese manufacturers are already restraining EC-bound exports of several items, including televisions and video cassette recorders, while a dozen other products are under EC surveillance. In addition, five EC nations impose limits on imports of Japanese cars. As might be expected, the surge in exports is confined to those countries that do not impose trade restraints. Precision equipment exports to West Germany, for example, jumped 72.3 percent in April over the previous year, while deliveries of the same category to France rose only 4.9 percent.

The big leaps can be partly attributed to the immediate impact of the stronger yen on dollar-based trade figures. A rate of Y178.70=$1.00 was used to calculate April 1986 figures while Y254.35=$1.00 was used for the same month in 1985, a 42.2 percent change.

In an effort to pre-empt further protectionist moves by the EC, the Ministry of International Trade and Industry is reportedly considering asking auto makers to slow the rate of growth of shipments to Europe. It is not clear if MITI will seek a fixed rate of growth or intends to be more flexible. MITI's decision will certainly be based on EC reactions and comments.

Jon Choy

U.S.-Japan Air Services To Expand

Trans-Pacific air travelers will soon have more choices of carriers and routes between Japan and the United States. Beginning July 2 Japan Air Lines will offer nonstop flights from Tokyo to Atlanta, making two round trips a week in the first regular service between Japan and the Southeast. Two weeks later All Nippon Airways will inaugurate scheduled service to this country with the start of five weekly nonstop round trips between Tokyo and Los Angeles. Then on July 26 Japan's major domestic carrier will start flying the Tokyo-Washington route three times a week -- the first direct air link between the two capitals. This fall, moreover, Delta Air Lines expects to launch trans-Pacific service, operating five weekly round-trip flights from Atlanta to Tokyo via Portland, Oregon. It will be joined next spring by American Airlines, another new competitor in the U.S.-Japan market. On May 1, 1987 the number-two U.S. carrier plans to offer nonstop service five times a week between Dallas/Ft. Worth, the first gateway in the Southwest, and Tokyo.

The first expansion in U.S.-Japan air services since United Airlines began flying between Seattle/Portland and Tokyo in April 1983 and JAL simultaneously started operating on the Tokyo-Seattle and Tokyo-Chicago routes was worked out in the spring of 1985 (see JEI Report No. 18B, May 10, 1985). That interim arrangement allowed each country to offer up to three new passenger-cargo services effective April 1 of this year. These services had to be